



**Tennessee Housing
Development Agency**

Leading Tennessee Home

New Start Program Guide

March 2007

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SECTION 1: THDA

1.1 THE GUIDE

This New Start Program Guide amends and replaces the New Start Program Guidelines dated July 1, 2001 (the "Prior Guidelines") and, together with all subsequent revisions, modifications or updates (the "Program Guide") provided by the Tennessee Housing Development Agency ("THDA"), contains information about THDA's New Start Program and specific requirements for the loans submitted, closed and delivered to THDA under the New Start Program ("New Start Loans"). The Prior Guidelines shall apply to all New Start Loans closed prior to March 19, 2007, and this Program Guide shall apply to all New Start Loans closed on or after March 19, 2007. Notwithstanding the foregoing, this Program Guide shall apply to servicing all New Start Loans regardless of closing date.

THDA may revise, modify or update this Program Guide from time to time and will notify New Start Program Partners of such changes. THDA may provide notice of changes by posting such changes to its web site at www.thda.org. Other notices required under this Program Guide or the Prior Guidelines shall be provided in accordance with Section 17 of the New Start Program Agreement or the Amended and Restated New Start Program Agreement by and between THDA and a New Start Program Partner (the "Program Agreement").

1.2 HOURS OF OPERATION AND HOLIDAY SCHEDULE

The Single Family Programs Division hours of operation are 7:30 a.m. until 4:30 p.m. Central Time, Monday through Friday. The Single Family Programs Division will be closed on official State holidays which are as follows:

New Year's Day
Martin Luther King Day
Presidents' Day
Good Friday
Memorial Day
Independence Day
Labor Day
Columbus Day*
Veteran's Day
Thanksgiving Day
Christmas Day**

* This holiday may be exchanged for a holiday on the Friday after Thanksgiving.

**Other holidays around Christmas may be announced later.

1.3 SINGLE FAMILY PROGRAMS DIVISION STAFF DIRECTORY

The Single Family Programs Division has day-to-day operational responsibility over the origination, processing and closing of New Start Loans by Program Partner. All correspondence should be directed to:

Singe Family Programs Division
Tennessee Housing Development Agency
404 James Robertson Parkway, Suite 1200
Nashville, Tennessee 37243-0900

General Information 615-815-2100
Toll-Free Voice Mail..... 1-800-228-8432
Fax (24 hours a day, 7 days a week) 615-564-2881

<u>Staff</u>	<u>Telephone</u>	<u>Email Address</u>
Laura B. Sinclair, Sr. Director of Single Family Programs (“SFP”)	615-815-2077	lsinclair@thda.org
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Caroline Rhodes, Mortgage Servicing Specialist	615-815-2098	crhodes@thda.org
Ginny Boles, Mortgage Servicing Specialist	615-815-2097	gboles@thda.org
Debbie Couch, Mortgage Servicing Specialist	615-815-2096	dcouch@thda.org
Debbie Reeves, Director of Business Development	615-815-2152	dreeves@thda.org

1.4. THDA NEW START PROGRAM DESCRIPTION

The New Start Loan Program is designed to promote the construction of new homes for low and very low income Tennesseans. The New Start Loan Program will be delivered through non-profit organizations (the “New Start Program Partner” or “Program Partner”) with established programs for the construction of single family housing for low and very low income households. The New Start Program Partner is responsible for selecting the homebuyer, determining eligibility, constructing the home, providing homebuyer education, originating and servicing the New Start Loan.

NEW START PROGRAM CHOICES

	TIER I	TIER II
Maximum Household Income	\$32,700	\$38,150
Interest Rate	0% fixed rate	2.49% fixed rate, subject to change
Loan Term	15, 20, 25 or 30 years	15, 20, 25 or 30 years
Maximum LTV	The lesser of 75% of appraised value or sales price	The lesser of 75% of appraised value or sales price
Loan Types	Conventional	Conventional
Buy Downs	Not allowed	Not allowed
Eligible Properties	Newly constructed single family	Newly constructed single family
Assumable	Subject to Section 9.3	Subject to Section 9.3
Pre-Payment Penalty	No penalty	No penalty
Subject to Recapture	Yes	Yes
Closing Costs	May come from Applicant, Seller or a gift	May come from Applicant, Seller or a gift
Homebuyer Education	Required	Required
Origination Fee	Maximum 1% on 1 st mortgage	Maximum 1% on 1 st mortgage
Maximum Loan Amount	\$110,000	\$110,000

SECTION 2: PROGRAM PARTNERS

2.1 ELIGIBILITY REQUIREMENTS

A. Becoming A Program Partner

A Habitat for Humanity affiliate (“Habitat”) located in the State of Tennessee or a non-profit organized and existing under the laws of the State of Tennessee (“non-profit”) may be eligible to participate in the New Start Loan Program. To establish eligibility, any such organization must provide all of the following to THDA:

1. Certificate of Existence from the Tennessee Secretary of State, dated within ninety (90) days of submission to THDA, indicating the organization was duly incorporated as a nonprofit corporation under the laws of the State of Tennessee at least two years prior to the date of application to become a Program Partner and is validly existing;
2. Copy of Articles of Incorporation, Charter and By-Laws, and all amendments thereto demonstrating that its purposes include providing decent housing that is affordable to low and very low income persons;
3. Copy of 501(c)(3) or 501(c)(4) determination letter from the IRS or a letter from Habitat for Humanity International confirming the applying affiliate is an exempt subordinate and a copy of the group determination letter from the IRS;
4. Copies of corporate documents authorizing participation in the New Start Loan Program;
5. Two page explanation of the organization’s experience in constructing affordable single family housing and in providing homeowner education for low and very low income households over the most recent two (2) calendar years from the date of application to become a Program Partner;
6. Copy of the most recent audit or financial statement prepared for the organization demonstrating financial capacity to carry out all requirements of the New Start Loan Program and demonstrating that the number of New Start Loans expected to be originated, closed and purchased by THDA during the fiscal year does not exceed fifty percent (50%) of the organization’s funding sources for affordable housing.

B. Remaining A Program Partner

Non-profits or Habitats who establish eligibility under Paragraph A above and who are approved by THDA to act as Program Partners hereunder shall annually submit acceptable documentation, as determined by THDA in its sole discretion, to remain a Program Partner. THDA will not purchase any New Start Program Loans from a non-profit or Habitat whose status as a Program Partner is not current.

C. THDA Designation

All materials submitted to THDA by any Habitat or non-profit must be satisfactory to THDA, in its sole discretion. THDA reserves the right to request additional information prior to determining whether any materials submitted are satisfactory and whether a Habitat or non-profit qualifies to become or remain a Program Partner. Habitats and non-profits who THDA determines, in its sole discretion, to be qualified and eligible, initially and on a continuing basis, are referred to as “Program Partners”.

2.2 NEW START PROGRAM AGREEMENT

The Program Agreement contains the basic contractual agreements between the Program Partner and THDA and must be fully executed before THDA will accept New Start Loan applications. The Program Agreement sets forth general terms under which the Program Partner is authorized to act on behalf of THDA. The Program Agreement also incorporates the contents of this Program Guide, the Prior Guidelines, and other instructions that may be issued by THDA to provide instruction and direction to Program Partners with respect to the New Start Program.

2.3 PROGRAM PARTNER OBLIGATIONS

A. Originate New Start Loans

Each Program Partner is responsible for the documents submitted to THDA in loan application files, closed loan packages or otherwise.

B. Assignment

The Program Partner who originated, processed, closed, and delivered a New Start Loan to THDA must directly assign the Deed of Trust securing the New Start Loan to THDA.

C. New Start Loan Servicing

New Start Loans must be serviced in accordance with this Program Guide and the Program Agreement.

D. Payment to THDA

If any New Start Loan borrower fails to remit a monthly payment to the Program Partner prior to the monthly date on which Program Partner must remit all payments to THDA, Program Partner shall make the monthly payment to THDA on behalf of such New Start Loan borrower. The Program Partner may pursue the New Start Loan borrower for any remedies it may have, however, failure or inability to collect monthly payments from the borrower(s) does not relieve the Program Partner of its obligation to make timely monthly payments to THDA for each New Start Loan the Program Partner is servicing.

E. Provide Homebuyer Education

Program Partner shall provide homebuyer education prior to closing each New Start Loan. A minimum of 8 hours face to face with one of THDA's certified trainers and a certificate of completion is required. If homebuyer education is not provided by a THDA certified trainer, the Program Partner must provide THDA with the curriculum used for THDA's review and approval. Program Partner shall monitor or provide counseling to each New Start Loan borrower during the life of the New Start Loan.

SECTION 3: QUALIFYING AN APPLICANT TO PARTICIPATE IN THDA'S NEW START LOAN PROGRAM

Program Partner shall determine Applicant eligibility for each New Start Loan in accordance with this section.

3.1 ACQUISITION COST LIMITS

A. Defining Acquisition Cost

Property to be financed with a New Start Loan cannot be purchased for an amount that exceeds the applicable county Acquisition Cost Limit as shown on the chart in Subparagraph C below. Generally, the Acquisition Cost is the total cost of acquiring the Property as a completed residential unit.

The Acquisition Cost is the price specified in the contract between the seller and Applicant for the Property plus amounts specified in any other agreements (written or verbal) in connection with the purchase or construction of the Property. The Acquisition Cost includes all amounts paid in cash or in kind by the Applicant or on behalf of the Applicant in connection with the Property.

B. Maximum Loan Amount

The maximum THDA New Start loan amount cannot exceed \$110,000.

C. Acquisition Cost Inclusions

Include the following items in determining Acquisition Cost:

1. The price indicated in an executed sales contract for a proposed or new unit and lot that will be conveyed to the Applicant when the New Start Loan is closed ("unit" includes a manufactured home on a permanent foundation);
2. The cost of all materials and labor needed to complete the residence that is not included in the sales contract;
3. Any other cash or in-kind contributions paid by or on behalf of the Applicant to or for the seller;
4. Any other cash or in-kind contributions paid by or on behalf of the seller to or for Applicant;

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C. Current Acquisition Cost Limits

Counties	Acquisition Cost Limits	Counties	Acquisition Cost Limits
Anderson *	\$200,160	Lauderdale T	\$200,160
Bedford	\$200,160	Lawrence T	\$200,160
Benton	\$200,160	Lewis	\$200,160
Bledsoe T	\$200,160	Lincoln T	\$200,160
Blount	\$200,160	Loudon T	\$200,160
Bradley *	\$200,160	McMinn	\$200,160
Campbell T	\$200,160	McNairy T	\$200,160
Cannon T	\$226,100	Macon T	\$226,100
Carroll T	\$200,160	Madison T	\$200,160
Carter	\$200,160	Marion T	\$200,160
Cheatham	\$226,100	Marshall	\$200,160
Chester T	\$200,160	Maury T	\$200,160
Claiborne T	\$200,160	Meigs T	\$200,160
Clay T	\$200,160	Monroe T	\$200,160
Cocke T	\$200,160	Montgomery	\$200,160
Coffee *	\$200,160	Moore	\$200,160
Crockett T	\$200,160	Morgan T	\$200,160
Cumberland	\$200,160	Obion T	\$200,160
Davidson *	\$226,100	Overton T	\$200,160
Decatur	\$200,160	Perry	\$200,160
DeKalb T	\$200,160	Pickett T	\$200,160
Dickson	\$226,100	Polk T	\$200,160
Dyer T	\$200,160	Putnam	\$200,160
Fayette T	\$200,160	Rhea T	\$200,160
Fentress T	\$200,160	Roane	\$200,160
Franklin T	\$200,160	Robertson	\$226,100
Gibson T	\$200,160	Rutherford	\$226,100
Giles T	\$200,160	Scott T	\$200,160
Grainger T	\$200,160	Sequatchie T	\$200,160
Greene T	\$200,160	Sevier	\$200,160
Grundy T	\$200,160	Shelby	\$200,160
Hamblen *	\$200,160	Smith	\$226,100
Hamilton *	\$200,160	Stewart T	\$200,160
Hancock T	\$200,160	Sullivan	\$200,160
Hardeman T	\$200,160	Sumner	\$226,100
Hardin T	\$200,160	Tipton T	\$200,160
Hawkins T	\$200,160	Trousdale T	\$226,100
Haywood T	\$200,160	Unicoi T	\$200,160
Henderson T	\$200,160	Union T	\$200,160
Henry	\$200,160	Van Buren T	\$200,160
Hickman T	\$226,100	Warren	\$200,160
Houston T	\$200,160	Washington *	\$200,160
Humphreys	\$200,160	Wayne T	\$200,160
Jackson T	\$200,160	Weakley	\$200,160
Jefferson T	\$200,160	White T	\$200,160
Johnson T	\$200,160	Williamson	\$226,100
Knox *	\$200,160	Wilson	\$226,100
Lake T	\$200,160		

T Denotes a targeted county. The first-time homebuyer requirement is waived.

* Denotes that some census tracts in the county are targeted, and in these census tracts, the first-time homebuyer requirement is waived.

3.2 HOUSEHOLD INCOME LIMITS

A. Income Limits

1. Tier I (statewide): \$32,760
2. Tier II (statewide): \$38,220

B. Defining Household

1. Household Includes

A household, for purposes of determining Household Income for a New Start Loan, includes all persons 18 years of age or older who intend to live in the Property, all minors who will live in the Property, and any spouse who is absent or separated, regardless of whether they intend to occupy the Property. Any relative, friend or fiancé who intends to occupy the Property is a household member for purposes of determining Household Income.

2. Separated Applicant

A separated Applicant must be treated as married, and the Applicant, together with the Applicant's separated spouse, must meet all New Start Loan Program requirements. A separation agreement is not sufficient to waive this requirement. The Applicant and the Applicant's separated spouse must sign the Deed of Trust, at a minimum, at loan closing, so that the marital rights of the separated spouse in the Property are encumbered by the Deed of Trust. A separated spouse who will not occupy or take title to the Property must furnish, at a minimum, a current pay stub with verification of hire date and their previous year's Federal Income Tax Return, so that an accurate determination of Household Income can be made.

C. Defining Household Income

The Applicant cannot have, at the time of application or at closing, a Household Income, calculated in accordance with this section, greater than the applicable Household Income Limit shown in Section 1.5. Household Income includes all income of all Household members and all heads-of-household or spouses who do not live in the Property, except as noted in "Exclusions From Household Income" below.

Household Income is the total annual gross income, earned and unearned, from all sources, before taxes or other deductions, received by the Applicant, all other persons 18 years of age or older and all minors who will live in the Property, and any spouse who is absent or separated, regardless of whether they intend to occupy the Property.

D. Household Income Inclusions

Calculate Household Income for all members of the household and include all full-time, part-time or temporary income:

1. Wages: salary or hourly;
2. Overtime earnings, fees, tips and other compensation for personal services;
3. Bonuses, commissions, vacation pay, shift differential and holiday pay;

4. Social Security payments, SSI etc. can be grossed up 15%;
5. Interest, dividends and other net income of any kind from real or personal Property; (any withdrawal of cash or assets from an investment will be included as income, except to the extent the withdrawal is reimbursement of cash or assets invested by a household member); also, the greater of actual earnings or imputed earnings from liquid assets in excess of \$5,000.00.
6. Periodic, determinable allowances such as alimony, child support and other recurring payments or gifts from persons who will not reside in the Property;
7. Periodic payments from annuities, insurance policies, pensions, retirement funds, royalties, sick pay, trust income, disability, death benefits or other type of periodic payments, including lump sum payments for the delayed start of a periodic payment (except Social Security and SSI);
8. Armed Forces pay, including regular pay, special pay and allowances (excluding special pay for exposure to hostile fire). Armed forces pay for a head-of-household or spouse is always included, whether they are living in the household or not;
9. Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay (except lump sum payments as noted in "Exclusions From Household Income");
10. Welfare assistance;
11. Relocation payments made pursuant to Title II of the Uniform Relocation Assistance and Real Property Acquisition Act of 1970;
12. Benefit and other non-earned income, including amounts paid directly to or on behalf of minors and full-time students;
13. Any other source of income, except as noted in "Exclusions From Household Income".
14. Annual net income from rental (net rental income is calculated at 75% of gross rent).
15. Total annual net income from operating a business or profession, including expenditures for business expansion or capital indebtedness, and withdrawal of cash or assets except to the extent the withdrawal is for reimbursement of cash or assets invested in the operation by a household member; an allowance for deduction of straight line depreciation of assets used in the operation is allowed.

E. Household Income Exclusions

When calculating Household Income do not include:

1. Earned income from employment of children and foster children under age 18; however, benefits and other non-earned income paid directly to or on behalf of minors and full-time students is counted as Household Income;
2. Amounts that are specifically for, or in reimbursement of, the cost of medical expenses for a household member;

3. Income of a live-in aide;
4. Student financial assistance (educational grants, scholarships, educational entitlements, work-study programs and financial aid packages) paid directly to the student or to the educational institution;
5. Earned income of full-time students 18 years old or older who can be claimed as a dependent by a household member; (earned income of a head-of-household or spouse who is a full-time student must be included in Household Income);
6. Armed Forces special pay for exposure to hostile fire;
7. Earned Income Tax Credits;
8. Amounts received that are incident to a training program funded by HUD, including compensation that is a component of a state or local employment training program with clearly defined goals and objectives, the duration of which is for a limited period, determined in advance;
9. Amounts received by a disabled person that are disregarded for a limited time for purposes of Supplemental Security Income (SSI) eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency (PASS);
10. Amounts received by a participant in a publicly assisted program which are specifically for or in reimbursement of out-of-pocket expenses (such as special equipment, special clothing, transportation, child care, etc.) and which are made solely to allow participation in a specific program, such as the Community Work Experience Program, or the Employment Search Program; this exemption also includes volunteer fire-fighters;
11. Temporary, sporadic or nonrecurring income, including gifts;
12. The value of Food Stamps;
13. Lump sum additions to assets, such as inheritance, insurance payments (including health and accident insurance and worker's compensation payments), capital gains, settlement for personal or Property loss, and deferred periodic payments received in a lump sum from Supplemental Security Income (SSI) and Social Security benefits;

3.3 RESIDENCE REQUIREMENT

The Applicant(s) must occupy the Property as their permanent, principal residence within 60 days after the New Start Loan is closed. The Applicant(s) must use the Property as their permanent, principal residence for the life of the New Start Loan.

3.4 THREE YEAR REQUIREMENT (FIRST TIME HOMEBUYER)

Applicant(s) who have had an ownership interest in their principal residence within the three years (a full 36 calendar months) prior to the date of a New Start Loan application are not eligible for a New Start Loan. When an Applicant is married, both spouses must meet the three year, first-time homebuyer requirement. The three year requirement (first time homebuyer) does not apply if the Property to be acquired with the New Start Loan is located within a Targeted Area as defined in Section 3.6 below or if the applicant is a veteran (See Section 3.4.C).

A. Permitted Ownership Interests

Applicant's, including spouses, may have the following ownership interests in their principal residence within the last three years and be eligible for a New Start Loan:

1. An ordinary lease, with or without an option to buy;
2. The interest of a buyer under a standard residential purchase contract;
3. A mere expectancy to inherit property at a later date;
4. A remainder interest;
5. A manufactured home without ownership of the land on which it is located;
6. A manufactured home and land on which it was located, if the manufactured home was not titled and assessed as real property;
7. Any of the prohibited ownership interests if the Property to be purchased with the New Start Loan is in a Targeted Area;
8. Any other interest that is not a prohibited interest, as determined by THDA.

B. Prohibited Ownership Interests

Applicants, including spouses, who have had any of the following ownership interests in their principal residence within the three years (a full 36 calendar months) before the date of the New Start Loan application are not eligible for a New Start Loan to acquire Property located within a non-Targeted Area:

1. Any interest evidenced by Applicant and/or Applicant's spouse name appearing on a deed to property occupied by Applicant and/or spouse as their principal residence;
2. A fee simple interest;
3. A joint tenancy;
4. A tenancy in common;
5. A tenancy by the entirety;
6. The interest of a tenant-shareholder in a cooperative;
7. A life estate;
8. A land contract;
9. Ownership of a manufactured home and the land on which it was located, if the manufactured home was titled and assessed as real property;
10. Any interest inherited from another under a will or by operation of law, regardless of the existence of a deed;
11. Any of the above interests held in a trust (whether or not created by the Applicant) that would constitute prohibited ownership interest if held directly by the Applicant;
12. A marital interest;
13. Any other interest that constitutes an ownership interest, as determined by THDA.

C. Veteran Exemption

Veterans and their spouses do not have to meet the three year requirement (i.e. be a first-time homebuyer) to be eligible for THDA's mortgage programs. The definition of "veteran" is found at 38 U.S.C. and, generally, includes anyone (a) who has served in the military and has been released under conditions other than dishonorable or (b) who has re-enlisted, but could have been discharged or released under conditions other than dishonorable. A current, active member of the military in their first tour of duty is not eligible for this exemption.

3.5 NEW MORTGAGE REQUIREMENT

A New Start Loan cannot be used to refinance an existing loan.

3.6 TARGETED AREAS

A Targeted Area is a qualified census tract or an area of chronic economic distress as designated by the IRS. A Targeted Area may be an entire county or may be a particular census tract within a county. The Targeted Area designation is important for two reasons:

1. The Three Year Requirement does not apply in Targeted Areas; and
2. THDA is required to use or set aside a portion of the proceeds from each bond issue for loans in Targeted Areas.

Documentation in each application file submitted to THDA must correctly identify whether the Property is or is not located within a Targeted Area. The Appraisal must identify the relevant census tract. If a discrepancy occurs in the census tract information reported on the appraisal versus the census tract shown on the Flood Hazard Determination, the Program Partner must clarify and provide correct census tract information to THDA.

A. Census Tracts

The US Census Bureau divides the United States into many small geographic areas, and identifies each with a unique series of numerals separated by decimals. These numbers indicate the Property's state, county, tract, and sub-tract. An example of a complete Census Bureau identification number and an explanation of its elements follows:

Example: 47.157.0078.10

"47" - the US Census Bureau identification number for Tennessee. THDA does not require this number to be indicated on the appraisal report.

"157" - the US Census Bureau identification number for Shelby County. THDA does not require the Census Bureau county code number to be entered on the appraisal report.

"0078" - the US Census Bureau identification number for one of the census tracts within Shelby County. The correct census tract number must be indicated on the Appraisal for Property located in those counties.

"10" - the US Census Bureau sub-tract number within tract 0078.

B. Current Targeted Areas

1. Counties

Bledsoe	Giles	Lake	Pickett
Campbell	Grainger	Lauderdale	Polk
Cannon	Greene	Lawrence	Rhea
Carroll	Grundy	Lincoln	Scott
Chester	Hancock	Loudon	Sequatchie
Claiborne	Hardeman	Macon	Stewart
Clay	Hardin	Madison	Tipton
Cocke	Hawkins	Marion	Trousdale
Crockett	Haywood	Maury	Unicoi
DeKalb	Henderson	McNairy	Union
Dyer	Hickman	Meigs	Van Buren
Fayette	Houston	Monroe	Wayne
Fentress	Jackson	Morgan	White
Franklin	Jefferson	Obion	
Gibson	Johnson	Overton	

2. Census Tracts

County	Census Tracts				
Anderson	020700				
Bradley	010400	010700			
Coffee	970900				
Davidson	011800	012400	012500	013600	013900
	014000	014200	014300	014400	014800
	016200				
Hamblen	100300				
Hamilton	000300	001200	001500	001600	001900
	002000				
Knox	000200	000400	000600	000700	001200
	001300	001400	002400	002800	
Montgomery	100400	000900			
Shelby	000200	000300	000400	000500	000800
	000900	001800	001900	002000	002100
	002200	002300	002400	002800	003700
	003800	004000	004100	004400	004500
	004600	004700	004800	004900	005000
	005100	005400	005700	005800	005900
	006000	006700	007810	008110	008400
	010300	010420	022022		
Washington	060700	060900			

SECTION 4: OTHER NEW START PROGRAM REQUIREMENTS

4.1 ELIGIBLE APPLICANTS

An eligible Applicant must meet ALL of the following criteria:

1. Possess and demonstrate the legal capacity to incur the THDA debt (not be judged incompetent and be age 18 or older or have minority removed by judicial process);
2. Meet credit underwriting standards as determined by the Program Partner;
3. Be, or become, within 60 days after the New Start Loan closing, a resident of the State of Tennessee and occupy the Property as their principal residence;
4. Agree not to rent the Property during the term of the New Start Loan.

4.2 PROPERTY ELIGIBILITY

A. Eligible Property

Eligible Property must meet ALL of the following requirements:

1. Be one of the following:
 - (a) New or proposed construction;
 - (b) Detached;
 - (c) Any of the below types of residences, new or proposed:
 - (1) built on site, or
 - (2) a modular home permanently attached to a foundation (in compliance with HUD guidelines), or
 - (3) a HUD approved double-wide manufactured home permanently attached to a foundation (in compliance with HUD Manual 4930.3, "Permanent Foundations Guide for Manufactured Housing"), with wheels, axles, towing tongue and running lights removed. If any portion of a residence includes a manufactured home, the residence is classified as a manufactured home for THDA's purposes. A structural engineer's report is required stating that the home is permanently attached to a foundation in compliance with HUD guidelines.
2. Any property consisting of more than one unit as described above, or that contains a separate living unit detached from the Applicant's principal residence, will not be eligible for THDA funding.

3. Not to be used in a trade or business or as an investment property, vacation home or seasonal home. Occasionally individuals claim a business deduction on their Federal Income Tax Returns. In most cases this is a small portion of the home that is used as an office. The tax return must show the percentage of square footage used for the business deduction. If the square footage used for a business deduction is 15% or less, it is acceptable to THDA. The home cannot be used as a day care center, beauty salon or other similar businesses.

B. Appraisals

The Program Partner is responsible for selecting appraisers and reviewing the quality of their work. THDA does not maintain a list of approved appraisers; however, THDA reserves the right to refuse appraisals from specific appraisers or appraisal firms. THDA also reserves the right to require a new appraisal prepared by a different appraiser or to require additional information, including additional comparable sales.

As an element of THDA's quality control process, appraisal desk reviews and field reviews may be ordered by THDA. Reviews indicating that the original appraisal contained unrealistic valuation methods or conclusions, or reviews that reveal patterns of inappropriate valuations, may result in the suspension of the appraiser from THDA's programs, or other appropriate action.

All application files submitted for THDA underwriting must include a Uniform Residential Appraisal Report (URAR), completed by an appraiser who is licensed by the State of Tennessee, and who has no financial interest in the transaction.

The Appraisal must indicate an appraised value acceptable to THDA. An application may be rejected by THDA if:

1. The appraised value of the Property exceeds the applicable Acquisition Cost Limit by more than 20%; or
2. The Appraisal indicates a land value in excess of 35% of the total appraised value of the Property, unless otherwise approved by THDA in its sole discretion; or
3. The Appraisal indicates the property values for the neighborhood in which the Property is located are declining and the Applicant is seeking a New Start Loan for maximum financing.

C. Acceptable Amount of Land

Property purchased using a New Start Loan program can include land up to two acres, or be one subdivision lot up to two acres in size, as shown on a recorded subdivision plat, without express THDA approval. More than one recorded subdivision lot will be acceptable if the property is located in an older subdivision containing narrow "shotgun" lots.

THDA may, on a case-by-case basis and in THDA's sole discretion, consider a property that includes more than one lot or exceeds two acres in size, if necessary for the habitability of the property. For example, some city or county zoning requires that the property contain more than two acres, the topography of the land may be extremely rough, additional land may be required for a septic system, etc. Requests for consideration of a property that exceeds two acres in size must be well documented by the appraiser. The appraiser must also state that the property is not income producing property.

4.3 ELIGIBLE LOAN TYPES AND TERMS

A. Types Of Loans

Each New Start Loan must be a conventional loan.

B. Maximum Loan-To-Value Ratios

The maximum loan-to-value may not exceed 75% of the lesser of the appraised value or contract sales price. The maximum combined loan-to-value (CLTV) including subordinate financing may not exceed 100%.

C. Maximum Loan Amount

The maximum New Start loan amount may not exceed \$110,000.

D. Security

All New Start Loans must be secured by a first lien on the Property. In addition, THDA may allow second mortgages in conjunction with a New Start Loan. Amortizing second mortgages or subordinate mortgages (non-forgivable) may not exceed \$20,000.

E. Loan Payment Terms

New Start Loans must be fully amortized, with level payments, and must be for a term of 15, 20, 25 or 30 years in all cases. The loan term cannot exceed the economic life of the Property as specified in the appraisal report.

F. Prepayment Penalty

Prepayment penalties are not permitted on New Start Loans.

G. Late Charge

Late charges, if any, must be reflected in the Promissory Note and cannot exceed 5%.

H. Assumptions

New Start Loans are not assumable except in accordance with Section 9.3.

I. Origination Fees and Discount Points

A 1% origination fee may be charged on THDA's first mortgage.

J. Discount Points

Not allowed.

4.4 FEDERAL RECAPTURE

All New Start Loans are subject to the federal recapture tax. The recapture tax is designed to recapture a portion of the subsidy associated with the below market interest rate on the New Start Loan. Recapture tax liability must be determined at the time the Property is sold, if the sale occurs within the first nine years of the closing of the New Start Loan. The recapture tax for the original Applicant does not apply if the sale occurs more than nine years after the date the New Start Loan closed. Refinancing a New Start Loan does not trigger recapture tax liability, however, if the Property is sold after the date of refinancing but before the ninth anniversary of the New Start Loan closing, recapture tax liability must be determined at the time of sale. Program Partner shall notify the Applicant about recapture tax at the time an application for a New Start Loan is made by securing their signature on the Notice To Applicants Federal Recapture Requirements.

Whether the recapture tax results in an actual payment to the federal government depends on a number of factors, including changes in family income, gain on the sale of the Property, the number of years the New Start Loan is outstanding, and the original New Start Loan amount. The exact amount to be paid, if any, cannot be determined until the Property is sold.

A New Start Loan that is assumed within nine years from the date of the original New Start Loan closing is subject to the recapture tax for an additional nine year period beginning on the date of the assumption. The recapture tax does not apply to the sale of an assumed New Start Loan if the purchaser who assumed the New Start Loan sells more than nine years after the date the New Start Loan is assumed.

For further information regarding the federal recapture tax, advise Applicants to contact their tax professional. Written information is available by ordering IRS Form 8828 "Recapture of Federal Mortgage Subsidy" and its accompanying instructions from any IRS office. A toll free IRS telephone number for ordering IRS forms is 1-800-829-3676.

SECTION 5: NEW START PROCESSING AND CREDIT UNDERWRITING REQUIREMENTS

5.1 OVERVIEW

A. Disclosures

Program Partner must make all disclosures required to comply with applicable Federal and State law or regulations.

B. Age of Credit Documents

All credit documents must be current when submitted to THDA for underwriting. At closing, credit documents cannot be more than 120 days old.

For New Start Loan Commitments with a term of six months (permanent financing on proposed construction), income and credit documents must be updated and resubmitted for THDA review and approval when construction is complete.

All updates and requests for extension of Commitments must be submitted with updated documents for THDA approval prior to the Commitment expiration date.

C. Qualifying Spouse

When there is more than one Applicant, all are considered Co-Applicants for THDA eligibility purposes. All Applicants must sign the Application Affidavit and the income of all persons must be included in calculating Household Income as described in Section 3.2. All Applicants must execute the Note and the Deed of Trust.

D. Non-Qualifying Spouse

1. Not permitted to take title to subject property (not on Warranty Deed).
2. Not permitted on the sales contract as a buyer.
3. Cannot have had ownership interest in principal residence in the past three years unless present property being purchased is in a targeted area.
4. Items required as documentation on the non-qualifying spouse:
 - a. Income verified and a current pay stub.
 - b. Signature on an original Application Affidavit (can be on the same Affidavit as Applicant or on a separate Affidavit).
 - c. Copy of the most recent tax year Federal Income Tax Return and W-2's.
 - d. Signature on the Deed of Trust at closing (encumbering marital interest).
 - e. Title insurance policy cannot state that title is vested in the non-qualifying spouse.

E. Co-Signers

Co-signers are not permitted.

5.2 VERIFICATIONS

A. Employment Verifications

Full documentation is required for THDA. All current full-time and part-time employment or self-employment covering a period of at least the last two years must be verified in writing. Telephone verification is acceptable on previous employment. For current employment not verified with a standard VOE form, answers to all questions contained on the standard VOE must be provided by the employer on employer letterhead. Verifications must indicate bonuses, next pay increase, overtime and scheduled number of work hours if paid by the hour. In addition, a copy of each Applicant's most recent pay stub is required. This income verification and documentation is also required for a non-qualifying spouse and any other person, 18 years of age or older, who intends to live in the Property.

B. Sole-Proprietorship Verifications

Year-to-date P&L, plus 1040's with Schedule C for a minimum of two tax years, and 24 months in business.

C. Partnership Verifications

Year-to-date P&L, plus 1065's with Schedule K-1 and Schedule E, part II; Partnership returns with all schedules. Minimum two tax returns and 24 months in business.

D. Limited Partnership Verifications

1065, Schedule K-1 and Schedule E, part II; Partnership Return with schedules. Minimum two tax returns and 24 months in business.

E. Deposit Verifications

Applicant's most recent bank statement may be submitted.

F. Veteran Status

Veterans applying for the exemption to the three year requirement must provide a copy of VA Form DD-214 or VA Form DD-4 (Enlistment/Re-enlistment Document).

5.3 DEBTS, OBLIGATIONS AND OTHER EXPENSES

A. Bankruptcy (Chapter 7 and Chapter 13)

An Applicant's Chapter 7 bankruptcy must be discharged for a minimum of two years and acceptable credit must be re-established to be eligible for a New Start Loan.

An Applicant's Chapter 13 bankruptcy must be discharged for a minimum of one year and all payments on the plan have been made as agreed, and acceptable credit has been re-established or maintained during this time.

Applicants currently in bankruptcy are not eligible for New Start Loan programs.

B. Previous Default

Applicants with prior foreclosures or deeds-in-lieu are generally not eligible for a New Start Loan for a period of four years from the date of the foreclosure sale.

C. Federal or State Tax Liens, Tax Arrearages

All tax liens or arrearages must be paid in full. Include an acceptable explanation from the Applicant.

D. Ratios

The total debt to income ratio may not exceed 45%.

E. Gift Letters

A properly documented gift letter is permitted.

SECTION 6: SUBMITTING A NEW START APPLICATION FILE TO THDA

6.1 OVERVIEW

Program Partners must present accurate and complete information with each application file. Information withheld or misrepresented may void a Commitment or if discovered subsequent to loan closing, could result in repurchase of the New Start Loan. If, prior to closing, either household composition as first proposed, and/or household income as initially determined has changed or will change prior to closing, Program Partner shall immediately notify THDA and shall submit updated loan documentation.

6.2 REQUIRED DOCUMENTS

A. New Start Underwriting Submission Checklist

Include this form with each application file submitted to THDA for underwriting. See Section 10.

B. Buyer Profile

A completed Buyer Profile must be included in the application file when submitted for THDA underwriting. See Section 10 for instructions.

C. Application Affidavit

The original executed and notarized Application Affidavit must be received as part of the loan submission package. The Application Affidavit must be signed by each loan Applicant. Married Applicants must both sign the Application Affidavit and meet first-time homebuyer eligibility requirements, even if a non-qualifying spouse is involved. See Section 10 for instructions.

D. Veteran Exemption Application Affidavit

The original executed and notarized Veteran Exemption Application Affidavit must be received as part of the loan submission package if the veteran is applying under the exception to the three year requirement. Married veteran applicants must both sign the Veteran Exemption Application Affidavit and the veteran's spouse does not have to meet the three year requirement.

E. Seller Affidavit

The seller of the Property must execute a Seller Affidavit for each application file submitted to THDA. The original Seller Affidavit is required as part of the initial package submission. See Section 10 for instructions.

F. Tax Returns

Copies of signed and dated Federal Income Tax Returns, including W-2's, for the most recent tax year for the Applicant(s) and/or any non-qualifying spouse must be included in the initial application file. Copies of signed and dated Federal Income Tax Return for the most recent tax year is also required for any household member 18 years or older who is required to file a Federal Income Tax Return.

If an Applicant or other household member 18 years of age or older cannot provide a copy of their most recent Federal Income Tax Return, they must obtain an IRS Tax Transcript or IRS Letter 1722, which are available from the IRS office where the tax return was filed. The Tax Transcript must be signed and dated by the tax payer. Transcripts may be ordered by using IRS Form 4506. If an Applicant or household member was not required to file a Federal Income Tax Return, provide a signed and dated statement specifying why they were not required to file.

THDA, at its sole discretion, may require the most recent three years Federal Income Tax Returns if there is any indication in the loan file of prior homeownership.

G. Notice To Applicants Federal Recapture Requirements

This THDA disclosure is required for all New Start Loans and must be signed at the time of application. Include the signed original in the application file. Furnish the Applicant a copy of the signed original. (See Section 10.)

H. Grants/Downpayment Assistance Approval Letters

If the Applicant expects to receive a grant or downpayment assistance to facilitate the purchase of the Property, include an approval letter from the granting organization indicating the type of assistance and the approved amount in the application file.

I. Transmittal Summary (Conventional FNMA/FHLMC Form 1008)

Include a Transmittal Summary with each New Start Loan application. This form is considered as the Program Partner's underwriting approval and must be signed and dated by the underwriter.

J. New Start Details of Purchase

This form must be included in the underwriting submission package.

K. Loan Application (1003)

Include the scratch 1003, signed and dated by the Applicant(s) and the Program Partner. Three years of residency should be stated on the 1003.

L. Credit Report

The original credit report must be included in the application file.

M. Credit Explanation Letters

Include credit explanation letters in the application file if adverse information has been verified.

M. Final Divorce Decree/Marital Dissolution; Court Ordered Child Support; SSI or Other Assistance

Include copies of any or all of these documents, as applicable.

O. Verification of Employment; Most Recent Pay Stub; Form Evidencing Telephone Verification of Prior Employment; Self-Employment

See Section 5.2.

P. Documentation for Veteran Exemption

VA Form DD-214 if applicant is a discharged or released veteran. VA Form DD-4 if applicant has re-enlisted, but was eligible for a discharge or release, other than dishonorable, at the time of re-enlistment.

Q. Verification of Deposit or Most Recent Bank Statement

See Section 5.2.

R. Sales Contract

Include a copy of the contract for the purchase of the Property (fully executed by seller and Applicant) in the application file. Information in the application file must be consistent with the contract. Any changes to the contract must be initialed by seller and Applicant.

S. Appraisal

Enclose an original Uniform Residential Appraisal Report (FMNA 1004) in the application file. The Uniform Residential Appraisal Report must reflect inspections of both the interior and exterior of the dwelling.

T. Original Photos of Subject Property and Comparable Sales or Legible Copies

U. Flood Notification

If the Property lies within a Special Flood Hazard Zone, the Program Partner must make proper and timely disclosure to the Applicant in compliance with federal regulations. Provide a life of loan Flood Hazard certification with the initial underwriting submission package or closed loan documents.

V. Good Faith Estimate

The initial Good faith Estimate (GFE) must be included in the Underwriting Submission Package and any subsequent changes in the GFE, if necessary, must be included in the Closed Loan Submission Package.

6.3 THDA UNDERWRITING DECISIONS

A. THDA Underwriting Results

THDA Underwriters review each application file (original, update or re-submission) and may:

1. Approve the application file without conditions, with prior to closing conditions or with conditions that must be satisfied when the New Start Loan is closed; or
2. Request additional documentation from the Program Partner as determined by THDA in its sole discretion.

B. Rejections

THDA Underwriters will reject an application if Household Income exceeds current Household Income Limits or if the Acquisition Cost exceeds the current Acquisition Cost Limit.

Any application file rejected by a THDA Underwriter is subject to further THDA review before the Program Partner is notified.

6.4 COMMITMENTS

A. Application Approval

An application file is not approved until a written Commitment is issued by THDA.

B. Commitment Term

New Start Loan Commitments are normally issued for a period of six months, however, a three-month period may be requested when construction is near completion.

C. Commitment Conditions

Commitments may be conditioned by THDA as follows:

1. Commitments may be issued with prior to closing conditions that must be satisfied before the New Start Loan can be closed, and/or
2. Commitments may be issued with conditions indicated under the heading “Receipt, With Closing Documents” (closing conditions).

D. Satisfying THDA Commitment Conditions

1. All prior to closing conditions must be satisfied in a manner satisfactory to THDA prior to the New Start Loan closing. Submit all documents needed to clear all prior to closing conditions for each application file simultaneously.

Documents submitted to satisfy prior to closing conditions must include the name of the Program Partner, the THDA Underwriter to whom they are being submitted, the name of the Applicant and the New Start Loan number.

2. All Closing Conditions (indicated on the Commitment as “Receipt, With Closing Documents”) must be satisfied by the time the New Start Loan is closed. Documentation acceptable to THDA to satisfy Closing Conditions must be included with the closed loan file when shipped to THDA.

THDA, in its sole discretion, may refuse to purchase any New Start Loan when any loan closing condition was not satisfied at closing.

E. Update of Application or Commitment

The application file and the Commitment must be updated in the following situations:

1. After the Commitment is issued, if there are changes in the Applicant’s household composition, income or credit, Program Partner must submit updated documentation to THDA for review and approval.
2. When construction is complete (based on a six-month Commitment for proposed construction), Program Partner must always submit final inspection, final photos and updated credit documents for THDA review and approval.
3. All requests for an extension of a Commitment must be accompanied with updated credit documents if the originally submitted credit documents are more than 120 days old.

F. Loan Amount Changes

Occasionally, there will be a change in the loan amount. If the final loan amount is less than the loan amount indicated in the Commitment, the Program Partner must immediately contact THDA Processing for a new principal and interest payment amount. THDA will issue a revised Commitment, but closing can proceed, provided all other elements of the Commitment have been satisfied.

If the final loan amount is more than the amount indicated in the Commitment, the Program Partner must immediately contact THDA Underwriting. The Program Partner must submit revised loan amount documentation and the updated Program Partner underwriter approval on the higher loan amount.

G. Commitment Delivery

THDA will fax the commitment to the Program Partner. The Program Partner must provide THDA with their fax number on the New Start Underwriting Submission Checklist.

H. Void Commitments

A Commitment is void under the following circumstances:

1. All prior to closing conditions are not satisfied, as determined by THDA, before the loan is closed;
2. Documentation in connection with “Receipt, With Closing Documents” (Closing Conditions) is not submitted with the closed loan package, or is not satisfactory to THDA;
3. A grantee on the Warranty Deed is not named in the Commitment;
4. The Property described in the closing documents differs from the Property indicated in the Commitment and/or on original URAR;
5. The loan closes in an amount larger than the amount indicated on the Commitment;
6. The interest rate or loan term differs from the Commitment;
7. The monthly principal and interest payment in the promissory note is less than the principal and interest payment indicated on the Commitment;
8. The monthly principal and interest payment in the promissory note exceeds the principal and interest payment indicated on the Commitment by more than one cent (\$.01);
9. The loan closes prior to the date of Commitment;
10. The loan closes after the Commitment expiration date without Commitment extension by THDA;
11. The closed loan does not otherwise conform to the Commitment or this Program Guide.

A New Start Loan closed with a void Commitment is not eligible for THDA funding. THDA will not purchase a New Start Loan if it was closed with a void Commitment.

6.5 FUNDING NEW START LOANS

New Start Loans are funded by the purchase method. After the closed loan file is delivered to THDA with acceptable documentation, THDA may purchase the New Start Loan.

SECTION 7: CLOSING A NEW START LOAN

7.1 SETTLEMENT AGENT

All New Start Loans must be closed in compliance with the Commitment and this Program Guide by a Settlement Agent who is an independent, third-party attorney or a title company.

7.2 LOAN COMMITMENT

The terms of a closed New Start Loan must match the Commitment and all Commitment conditions must be satisfied. THDA may not purchase any closed New Start Loan determined by THDA to be ineligible due to the terms of the closing, closing documentation or failure to comply with closing conditions, or any other closing related problem or error. **A revised Commitment must be issued prior to closing if any element of the proposed transaction does not match the Commitment.** Contact THDA with any questions or to obtain a revised Commitment prior to closing.

7.3 REQUIRED LOAN DOCUMENTS

A. Loan Documents

The most recent versions of the following instruments must be used, including any applicable riders. A non-qualifying spouse must sign the Deed of Trust:

1. FNMA/FHLMC Multi-State Conventional Note (Tennessee)
2. FNMA/FHLMC Multi-State Conventional Deed of Trust (Tennessee)
3. THDA Rider

B. Due Dates

The promissory note must specify a first payment due date as the first day of the second calendar month following the date of closing. All subsequent payments are due the first day of each month. Interest credits are not permitted.

C. Late Charges

Late charges are permitted only in compliance with the applicable conventional guidelines (5%). If the charge exceeds the allowable rate, the note will be returned for correction and signature by Applicant(s).

7.4 OTHER REQUIRED DOCUMENTATION

A. Title Insurance Policy

Use ALTA Loan Policy or ALTA Short Form Residential Loan Policy and include the following:

1. The insured amount must be equivalent to the amount of the first mortgage.

2. THDA must be a “named insured”. Use the following language:
(Name of Program Partner), and/or Tennessee Housing Development Agency.
 OR
(Name of Program Partner), *its successors and assigns*.
3. Taxes/assessments that are due and payable cannot be indicated as unpaid.
4. A non-qualifying spouse cannot be listed as an Applicant or indicated as a title holder on the face of the title insurance policy.

Endorsements to the Title Insurance Policy may be required as determined by THDA.

B. Warranty Deed

The Warranty Deed must convey the Property to the Applicant(s) indicated on the Commitment only. Substituted or additional grantees on the Warranty Deed will void the Commitment. A non-qualifying spouse cannot be included as a grantee on the Warranty Deed.

C. Hazard Insurance

Hazard insurance coverage must be issued in the name(s) of the titled property owner(s). The insurance company issuing the hazard insurance policy must be licensed by the State of Tennessee, and have a current financial rating by Best’s Insurance Reports of class IV or better.

The policy must insure against loss due to fire and other hazards covered by the standard extended coverage endorsement on a replacement cost basis. The Applicant may elect to include additional coverages, such as liability and earthquake insurance, and special policy riders.

The minimum acceptable amount of hazard insurance coverage is the appraised value less the site value, as provided in the appraisal, or an amount sufficient to replace the structure as determined by THDA.

The maximum allowable deductible is the higher of \$1,000 or 1% of the face amount of the policy. The deductible clause may apply to either fire, extended coverage, or both. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible may be the higher of \$2,000 or 2% of the face amount of the policy.

Minimum initial term is one year.

THDA must be named as mortgagee in the original policy or in an endorsement. Use the following language:

Tennessee Housing Development Agency
 C/O *(Program Partner)*, Loan # _____
(Servicer’s mailing address)
(Servicer’s city, state, zip)

Coverage must be in force on or before the day of closing.

An original insurance policy or Certificate of Insurance is required. An insurance binder, a memorandum of insurance or a premium bill is not acceptable. The Program Partner must retain the original policy or certificate for the New Start Loans it is servicing. Promptly after closing, Program Partner must submit a copy of the declarations page to THDA with the closed loan package.

Policies are not acceptable if, under the terms of the carrier's charter, by-laws or policy, contributions or assessments may be made against the Applicant, THDA or THDA's designee; or if by the terms of the carrier's charter, by-laws or policy, loss payment is contingent upon action by the carrier's Board of Directors, policyholders or members; or the policy includes any limiting clauses (other than insurance conditions) which could prevent THDA or Applicant from collecting insurance proceeds.

D. Flood Insurance

Flood insurance is mandatory for all New Start Loans with improvements located in Flood Zone A, without exception. A copy of FEMA Form 81-93 Standard Flood Hazard Determination must be included with the closed loan package when submitted to THDA. The Flood Certification MUST state it is for the life of the New Start Loan. If part of the Property is located in Flood Zone A, but all of the improvements are outside Flood Zone A, flood insurance is not required.

To waive the flood insurance requirement, a loan survey is required and must indicate the boundary of Flood Zone A and show that all improvements included in the appraised value are outside of Flood Zone A.

The amount of coverage must equal the total amount of the New Start Loan approved by THDA up to the maximum amount available through the National Flood Insurance Program.

The same mortgagee clause and mailing address previously indicated under "Hazard Insurance" must be used.

A copy of the flood insurance application and a copy of the check for the first year's premium must be enclosed with the closing package shipped to THDA.

E. Escrow for Completion of Construction

Escrows for completion of construction should only be for minor items, such as final landscaping that is delayed due to wet weather.

Submit the proposed escrow agreement to THDA prior to closing. At a minimum, the escrow agreement must state what the escrow is for, the dollar amount to be escrowed (150% of the cost to complete construction), and the completion date which may not exceed 60 days.

All work must be completed and a final inspection delivered to THDA by no later than 60 days after closing.

An escrow agreement acceptable to THDA for completion of construction must be used. The Program Partner must hold and disburse the escrow funds in accordance with the Escrow Agreement.

F. HUD-1

The Closed Loan Submission Package must include the HUD-1 Settlement Statement. If the borrower(s) is taking out two loans to finance the purchase, each loan must have a separate HUD-1. However, the principal amount of the second loan should be listed on lines 204-209 of the HUD-1 for the first loan.

A loan originator may designate an origination point on page 2 of the HUD-1 in line 801. THDA allows a 1% origination point for all loans. The designation should follow "Our Origination Charge" either by adding the language "Includes Origination Point " (__% or \$__) or by placing an asterisk (*) and adding the language at the bottom of the page.

G. Truth in Lending

The final Truth in Lending (TIL) must be provided to THDA on all closed loans including Second Mortgage.

7.5 OTHER REQUIREMENTS

A. Close In The Name Of

All New Start Loans must be closed in the name of the Program Partner noted on the Commitment and must be assigned to THDA.

B. Qualifying Spouse

Applications involving married Applicants require that both spouses, with the exception of the Veteran exemption, meet the first-time homebuyer eligibility, except in Targeted Areas.

A non-qualifying spouse cannot take title to the Property. An Applicant's spouse must sign the Deed of Trust. Any loan documentation indicating a non-qualifying spouse as a grantee or transferee is ineligible for purchase by THDA.

C. Rescission

THDA cannot fund or purchase a loan that is closed with a Three-day Right of Rescission.

D. Net Funds "To Applicant"

An Applicant cannot receive any funds from the closing that exceed amounts that they paid in advance from their personal funds for earnest money, appraisal fees and credit report fees. If a grant from an entity other than THDA is included in the transaction, coordinate this subject with the grant provider.

E. Affidavit of Affixation (Manufactured Home)

An Affidavit of Affixation is required on all manufactured home loans and must be recorded with the Deed of Trust. THDA's Affidavit of Affixation Form HO-0453 is to be used unless the Settlement Agent uses an Affidavit of Affixation that meets the statutory requirement of TCA Section 55-3-138.

7.6 CLOSING COSTS

Closing Costs and Fees a THDA Applicant May Pay

1. The Applicant may pay any and all reasonable and customary fees and costs normally charged in the market place. If THDA, in its sole discretion, determines that the Applicant has been charged a fee that is exorbitant or not customarily charged in the market place, the Program Partner will be required to refund these fees to the Applicant.
2. Origination Fee
A fee equal to 1% of the THDA Loan Amount is permitted, and is paid to the Program Partner. No origination fee may be charged on any subordinate financing. A loan originator may designate an origination point on Page 2 of the HUD-1 in line 801. The designation should follow "Our Origination Charge" either by adding the language "Includes Origination Point" (___% or \$___) or by placing an asterisk (*) and adding the language at the bottom of the page.
3. Discount Points
Not allowed on THDA's first mortgage or subordinate financing.
4. Subordinate Financing
The only allowable fees that may be charged on subordinate mortgages are recording fees and a document preparation fee for the Deed of Trust.

SECTION 8: SHIPPING A CLOSED NEW START LOAN

8.1 OVERVIEW

A. Program Partner Obligations

Program Partner must conform to strict timetables when shipping a closed loan file to THDA. The THDA Closed Loan Submission Checklist lists the documents that must be provided to THDA with each closed loan file.

Upon receipt of the closed loan file from the Settlement Agent, Program Partner must:

1. Audit all documents for accuracy,
2. Immediately secure any necessary corrections,
3. Comply with THDA delivery deadlines.

B. Document Caption

Documents or files delivered to THDA must be clearly identified with the Program Partner's name, the primary Borrower's name, the New Start Loan number, and the name and telephone number of the Program Partner's contact person. When shipping follow-up documents after the initial closed loan file has been delivered, Program Partners must properly identify all documents being delivered.

C. Shipping Address

When delivering closed loan files and follow-up documents, specify "Single Family Programs Division, Closing Department".

8.2 DELIVERY DEADLINES

Delivery of all closed loan files must conform to the following deadlines:

1. 24 Hour Deadline

Fax a copy of all executed Notes to "Single Family Programs Division, Attention: Closing Department" at (615) 741-2338 within 24 hours of closing. This facsimile machine will receive transmissions 24 hours a day, seven days a week.

2. 10 Day Deadline

THDA must receive the THDA Closed Loan Transmittal, the original Note, and all other required initial submission documentation within ten (10) calendar days following closing.

3. 120 Day Deadline

THDA must receive all necessary documentation, including the recorded Deed of Trust, Assignment, Title Insurance Policy, and final inspections within 120 days of closing.

THDA may grant one extension, for a period not to exceed thirty (30) calendar days, to the delivery deadline for cause, in THDA's sole discretion. THDA may consider additional extensions, in THDA's sole discretion. Any additional extensions must be approved by THDA, in THDA's sole discretion.

Program Partner will receive notification of correction(s) to be made and Program Partner remains obligated to complete the file in a timely manner.

8.3 FAILURE TO MEET DELIVERY DEADLINES

THDA may demand repurchase of any loan closing file that is incomplete on the 151st day following closing. THDA's demand will include repurchase instructions and the repurchase deadline. New Start Loans not previously purchased by THDA may not be purchased if, on the 151st day following closing, the loan closing file is incomplete.

THDA may require Program Partners who submit New Start Loans that do not comply with delivery deadlines to submit all final documents before any New Start Loans will be eligible for purchase by THDA.

Program Partners who consistently fail to meet delivery deadlines may be suspended from originating New Start Loans, at THDA's sole discretion, until all delinquent loan files are completed.

8.4 REQUIRED DOCUMENTS FOR A COMPLETE CLOSED LOAN FILE

A. New Start Closed Loan Submission Checklist

A completed THDA New Start Closed Loan Submission Checklist must be used as the cover sheet when submitting closed loan files to THDA. See Section 10 for detailed instructions.

B. Request for Loan Purchase with Acknowledgement and Certification

Execute this form and enclose in the order indicated on the Closed Loan Submission form. See Section 10 for detailed instructions.

When THDA elects to purchase a New Start Loan, the purchase will be by wire transfer. A New Start Loan is eligible for purchase when the initial closed loan package, which must include the following documents, has been received by and is satisfactory to THDA:

- Original Note
- Copy of executed Deed of Trust
- Title Insurance Commitment
- Copy of executed Warranty Deed
- Declaration page of Hazard Insurance
- HUD-1

C. Commitment

Enclose a copy of the Commitment.

D. Original Note

Deliver the original Note, endorsed to THDA by an authorized Program Partner staff member, to THDA within 10 days after loan closing. Include the original Note with the closed loan package if THDA will receive the entire closed loan package on or before the 10 Day Deadline.

E. Deed of Trust

Enclose the original recorded Deed of Trust and Rider(s), or a copy (before recording) of the fully executed Deed of Trust and Rider(s) which have been certified as a true and exact copy by the Settlement Agent or an authorized Program Partner staff member.

THDA must receive the original recorded Deed of Trust and Rider(s) on or before the 120 Day Deadline. Applicant's signature and typed name on the Deed of Trust, Title Insurance Policy and Warranty Deed must match exactly or a name affidavit must be enclosed. The legal description, book, page, time of recording and other critical data must match the Title Insurance Policy and the Warranty Deed, as applicable.

F. Affidavit of Affixation (Manufactured Home)

Enclose the original, fully executed and recorded Affidavit of Affixation.

G. Assignment

Enclose the original recorded Assignment, or a copy (before recording) of the fully executed Assignment which has been certified as a true and exact copy by an authorized Program Partner staff member.

THDA must receive the original recorded Assignment on or before the 120 Day Deadline. The recorded Assignment must indicate the correct book and page reference for the recorded Deed of Trust and any subsequent re-recordings. The Title Insurance Policy or an endorsement must reflect the recording and any subsequent re-recordings of the Assignment.

H. Title Insurance Policy/Endorsements

Enclose the original Title Insurance Policy and all required endorsements. The original Title Insurance Policy must be received by THDA on or before the 120 Day Deadline.

I. Warranty Deed

Enclose a copy (before recording) of the fully executed Warranty Deed that conveys the Property to the Borrower. A copy of the recorded Warranty Deed may be provided, but is not required. In cases where only one spouse is the Borrower, that spouse must be the only grantee in the Warranty Deed.

J. HUD-1

Enclose all pages of the original HUD-1 and attachments, signed by all parties to the transaction.

K. Hazard Insurance

THDA must receive a copy of the hazard insurance policy declarations page, or a copy of the Certificate of Insurance, signed by an authorized agent of the insurance company.

L. Flood Insurance (when applicable)

See Section 7.4.E.

M. Commitment Conditions

Enclose any additional documents needed to satisfy, at closing conditions specified in the Commitment.

8.5 LOAN REPURCHASE

A. Repurchase Obligation

THDA, in its sole discretion, may refuse to purchase any New State Loan and may require a Program Partner to repurchase any New Start Loan when any of the following exist:

1. Commitment conditions are not satisfied; or
2. The closed New Start Loan does not match all elements of the Commitment; or
3. The Program Partner fails to deliver closed loan documentation to THDA within specified deadlines; or
4. Any material fact discovered subsequent to the closing causes the New Start Loan to be ineligible for THDA financing.

A Program Partner who fails to repurchase New Start Loans upon demand may be suspended from submitting new loan applications to THDA, and THDA may pursue other remedies.

B. Repurchase Price

The amount necessary to repurchase a New Start Loan is:

1. The sum of the outstanding principal and interest, and
2. Monthly escrow adjustment.

C. Repurchase Procedure

When THDA demands repurchase of a New Start Loan, the following procedures apply:

1. THDA will provide instructions for obtaining the repurchase price from THDA and specify a deadline.

2. The Program Partner must prepare an Assignment from THDA to the Program Partner and submit it to THDA for execution.
3. The Program Partner must wire the required repurchase price to THDA according to instructions provided by THDA.
4. Upon receipt of the repurchase price, THDA will sign and notarize the Assignment and return it to the Program Partner with the loan file.

New Start Loans declared ineligible for purchase by THDA and New Start Loans repurchased from THDA are not eligible for subsequent purchase by THDA.

8.6 ADDITIONAL INFORMATION

Each closed loan file is audited as received and a report is produced identifying missing documents and required corrections. THDA will send individual loan reports to the Program Partner's designated contact person and will indicate the final document delivery deadline for each loan. Program Partner must promptly supply missing documents and make required corrections. Failure to do so may result in a demand for loan repurchase.

SECTION 9: SERVICING NEW START LOANS

9.1 OVERVIEW

Each Program Partner is responsible for all servicing duties for each New Start Loan purchased by THDA. All New Start Loans must be serviced in compliance with this Program Guide, the Program Agreement and the most current version of the Servicer Guide.

9.2 REMITTANCE TO THDA

A. Monthly Payments

Each Program Partner shall collect all monthly payments from each New Start Loan and remit monthly payments to THDA no later than the 10th of each month.

B. Program Partner Remittance Obligations

If a New Start Borrower fails to make a regular monthly payment to the Program Partner, the Program Partner shall make the regularly scheduled monthly principal payment to THDA on behalf of the New Start Borrower no later than the 10th of the month. The Program Partner may pursue the New Start Borrower for any remedies it may have, however, failure or inability to collect payments from the New Start Borrower(s) does not relieve the Program Partner of its obligation to make timely monthly payments to THDA for each New Start Loan the Program Partner is servicing.

C. Payment Delivery

Unless directed otherwise by THDA, payments shall be mailed to :

Tennessee Housing Development Agency
Attention: Single Family Programs Division/Servicing
404 James Robertson Parkway, Suite 1114
Nashville, TN 37243-0900

9.3 DEFAULT BY BORROWER

The Program Partner shall acquire the property in the event of foreclosure, unless a suitable, third party bid is accepted by THDA. The Program Partner shall pay THDA the then current outstanding principal balance of the New Start Loan, within forty-eight (48) hours of the foreclosure sale.

The Program Partner, in its sole discretion, may at any time:

1. purchase any New Start Loan from THDA for the then outstanding principal balance;
2. pay any New Start Loan in full; or
3. foreclose, to the extent permissible under any secondary financing documentation Program Partner may have, step into the shoes of the Borrower in relation to THDA, and continue to pay THDA until a subsequent Borrower, acceptable to THDA, is approved by THDA to purchase the property. Any such Borrower may assume the New Start Loan only in accordance with this Program Guide and with the prior written approval of THDA.

9.4 OTHER SERVICING REQUIREMENTS

A. Insurance and Taxes

Each monthly payment the Program Partner collects from each New Start Borrower shall include a payment for taxes and insurance to be held in escrow by the Program Partner.

1. Program Partner shall keep all relevant flood or hazard insurance in force at all times for each property during the life of the respective New Start Loan and shall pay all applicable premiums when due from escrowed portions of each Borrower's total monthly payments. See Section 7 for insurance requirements.
2. Program Partners shall pay all applicable property taxes and special assessments prior to the expiration of any available discount dates. Program Partner shall pay, from its own funds, any penalties that may be incurred due to failure to remit payment prior to the discount date.

B. Borrower's Escrow Account and Custodial Account

1. Program Partner shall establish a custodial account in an FDIC-insured depository into which all payments received from New Start Loans shall be deposited until disbursed for their intended use in accordance with this Program Guide (the "Custodial Account"). The Custodial Account may not be used for any other purpose or co-mingled with other funds of the Program Partner, another investor or any other entity. The Custodial Account shall be a demand account or a savings account with no withdrawal restrictions. The Program Partner shall maintain detailed records that identify each Borrowers' interest in the funds held in the Custodial Account. The Program Partner shall pay all charges and fees that may be imposed by the depository for maintaining custodial accounts. Interest that may accrue to the Custodial Account shall become the property of the Program Partner. Each Custodial Account shall be captioned "THDA Custodial Account by [name of Program Partner]".
2. Program Partner shall, prior to THDA's purchase of the first New Start Loan from Program Partner and, subsequently, upon demand, provide evidence, satisfactory to THDA, in THDA's sole discretion, that a Custodial Account has been established as required herein.
3. If Borrower's escrow account balance is insufficient to pay mandatory escrow charges when due, Program Partner must advance such amounts from its own funds. Such advances may be collected from the Borrower.

C. Name Changes

Program Partner shall not permit the name of record for any Borrower to be changed without a qualifying assumption.

D. Prepayments, Curtailments, and Payment in Full

Borrowers may prepay, in whole or in part, any New Start Loan at any time. If a Borrower makes a partial prepayment, in addition to a scheduled monthly payment, Program Partner shall place such prepayment into the Custodial Account and hold for future scheduled remittance to THDA. The Custodial Account shall also be used to deposit partial payments remitted by the Borrower.

If, in addition to a scheduled monthly payment, the Borrower pays an amount to be applied to the outstanding principal balance of the New Start Loan (“curtailment”), Program Partner shall remit the curtailment amount to THDA in the same manner and at the same time as a scheduled monthly principal payment. A curtailment does not affect future scheduled monthly payments, which shall be due as scheduled regardless of the amount of the curtailment. Curtailments shall not be refunded to the Borrower.

If the New Start Loan is paid in full prior to the last scheduled payment, the Program Partner shall remit the total remaining principal balance to THDA within 24 hours of receipt. Program Partner will prepare and execute, on behalf of THDA, a Release of Lien for recording, at Program Partner’s expense, at the office of the applicable Register of Deeds.

9.5 Service Fee

The Program Partner may retain a service fee of \$12.00 per New Start Loan per month. Program Partner shall withhold the service fee proportionately from each monthly remittance made to THDA. THDA may reduce the service fee Program Partner is authorized to receive if, in THDA’s sole judgment, Program Partner failed to service any New Start Loan or failed to perform other services required in this Program Guide or in the Program Agreement in a timely and satisfactory manner.

SECTION 10: NEW START FORMS AND INSTRUCTIONS

10.1 OVERVIEW

As a result of Tax Code requirements, THDA must require certain forms. Application files or closed loan packages that do not contain fully executed THDA forms, as required, will not be accepted by THDA. These forms must be included in THDA application files and in THDA closed loan packages as indicated in this Program Guide. THDA forms are in addition to the typical forms utilized in the mortgage industry.

THDA forms may not be altered.

THDA forms may not be distributed to any entity who is not a Program Partner or to any other unauthorized individual or entity.

Detailed instructions for completion of each THDA form follows in the order that they are typically encountered in the lending process:

Application Affidavit HO-0450 (09/99)

Veteran Exemption Application Affidavit HO-0460 (02/07)(if applicable)

Notice to Applicants Federal Recapture Requirements HO-0448 (09/99)

Seller Affidavit HO-0451 (09/99)

Buyer Profile HO-0439 (Rev 12/06)

New Start Underwriting Submission Checklist HO-0495 (12/09)

New Start Details of Purchase HO-0497 (08/08)

THDA Rider HO-0440 (Rev 8/1/03)

Affidavit of Affixation HO-0453 (12/06)

New Start Closed Loan Submission Checklist HO-0496 (12/09)

Request For Loan Purchase with Acknowledgement and Certification HO-0444 (Rev 12/06)

10.2 NEW START FORMS AND INSTRUCTIONS

APPLICATION AFFIDAVIT HO-0450 (09/99) THDA

VETERAN EXEMPTION APPLICATION AFFIDAVIT HO-0460 (02/07) THDA (If Applicable)

The Application Affidavit or Veteran Exemption Application Affidavit (if applicable) must be executed by each applicant and non-qualifying spouse. The household income figure to be provided in item #3 is the maximum allowable income for the size of the applicant's household and location of property. The acquisition cost figure to be provided in item #4 is the maximum THDA acquisition cost for the county in which the property is located. The original Application Affidavit or Veteran Exemption Application Affidavit is required by THDA. All changes or whiteouts must be initialed by the Applicant(s).

Each Application Affidavit or Veteran Exemption Application Affidavit must be executed and notarized within the State of Tennessee; however, in rare circumstances, an Application Affidavit or Veteran Exemption Application Affidavit may be executed and notarized outside the State of Tennessee, such as when a person is a member of the armed forces, is stationed outside the state and is unable to be present while the application is being processed.

B. Notice To Applicants Federal Recapture Requirements HO-0448 (09/99) THDA

This form is mandatory for all New Start Loan applications. The Applicant and all Co-Applicants must sign and date the form at the time of application. Provide a copy of the executed form to the Applicant. Enclose the original signed and dated form in the application file when submitted for THDA underwriting.

C. Seller Affidavit HO-0451 (09/99) THDA

The seller of the Property must complete a Seller Affidavit for each New Start Loan application file submitted to THDA. The seller must sign and date the Seller Affidavit, and it must be notarized. Enclose the original Seller Affidavit in the application file when submitting for THDA underwriting.

D. Buyer Profile HO-0439 (Rev 12/06) THDA

This form is critical to facilitate accurate reports by THDA. Complete this form accurately and completely and enclose it in the application file when submitted for THDA underwriting.

E. New Start Underwriting Submission Checklist HO-0495 (12/09) THDA

Use this form as a cover sheet for all New Start Loan application files submitted to THDA.

Follow the checklist closely and complete all information.

The checklist has three main sections:

1. General Information.
2. THDA Program Eligibility. Must include original documents, notarized as indicated.
3. Credit Package. Must include documentation, as indicated.

Program Partner Information: Provide complete information, including the Program Partner's four-digit number as assigned by THDA.

Primary Applicant: Include primary Applicant's name as it will appear on all documents.

Property Address: Must be accurate and consistent on all documents.

Submission Purpose: As indicated, this form may be used for purposes in addition to the initial submission of an application file.

Property Type: Indicate the correct property type. Check the appropriate block to indicate a residence that is a single family detached or a condominium. Check "Other" and indicate in the blank provided if the residence is a PUD, townhouse, zero lot line, modular or manufactured home.

F. New Start Details of Purchase HO-0497 (08/08) THDA

This form is used to determine the number and dollar amount of all subordinate financing and whether amortizing or forgivable subordinate liens.

G. THDA Rider HO-0440 (8/1/03) THDA

The THDA Rider must be completed, executed, attached to and recorded with the deed of trust for all New Start Loans. The THDA Rider must be signed by all Applicants who are required to sign the first deed of trust and recorded with the deed of trust.

H. Affidavit Of Affixation HO-0453 (12/06)

An original Affidavit of Affixation is required on all manufactured home loans and must be recorded with the Deed of Trust.

I. New Start Closed Loan Submission Checklist HO-0496 (02/09) THDA

Use this form when submitting all closed loan files to THDA. This form can also be used as a checklist for submission of follow-up documentation.

**J. Request For Loan Purchase With Acknowledgement And Certification
HO-0444 (Rev 12/06) THDA**

Submit an executed Request For Loan Purchase with Acknowledgement and Certification for each New Start Loan when delivered to THDA. By submitting a New Start Loan file to THDA for purchase, each Program Partner is deemed to affirm the Acknowledgement and Certification appearing on the master form of the Request For Loan Purchase with Acknowledgement and Certification with respect to each New Start Loan file submitted regardless of whether the Acknowledgement and Certification is included with the form submitted with a particular New Start Loan file.

Provide all information indicated. Check the appropriate box indicating whether the New Start Loan file is complete in all respects or not. Sign and date where indicated, print name and title, and provide telephone number.

10.3 USE OF FORMS

The THDA forms that follow this page, and as may be subsequently revised by THDA, are incorporated as part of this Program Guide. These forms are also available electronically at www.thda.org. Alteration of these forms in any way is not permitted.